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DISCUSSION AFTER THE SPEECHES OF JOSEPH PAPOVICH AND ALLEN HERTZ

QUESTION, MR. MURPHY: My question has to do with the movement across national borders of two things that seem to be creating more and more litigation in trade disputes in the United States. One of those things is counterfeit goods, and the other thing is gray market goods. I would be very much interested in the comments of each speaker as to the way the negotiations have gone, and are likely to go, toward allowing or requiring a nation to establish restrictions against the movement inbound or outbound of counterfeit goods and gray market items.

ANSWER, MR. PAPOVICH: When you say restrictions, do you mean quantitative restrictions in the traditional sense?

QUESTION, MR. MURPHY: No. I recall there is a sentence in TRIPS,¹ for example, that says that participating nations are supposed to establish procedures whereby counterfeit imports can be restricted or seized.

ANSWER, MR. PAPOVICH: It varies. The United States would prefer that customs authorities be authorized to seize goods coming across the border.

QUESTION, MR. MURPHY: These are counterfeit goods.

ANSWER, MR. PAPOVICH: Yes, counterfeit goods. In fact, in the United States, our customs service has established what is called a recordation system, where trademark owners can submit information to customs on their product, which in effect records their trademark with customs. Customs makes this information available to its agents at all different ports of entry and advises its agents to be on the lookout for counterfeit versions of this product. Customs has the authority to seize those goods. We would like everyone to do that. We would like all customs services to have that authority, either a recordation system or something, that works for some industries.

Some countries, for reasons I do not completely understand, or at least I do not recall, do not give their customs service the authority or the competence to do seizures in this regard. So one has to wait until

¹ Agreement on Trade-Related Aspects of Intellectual Property Rights.

the goods clear customs and then ask a judge to order their seizure. That is a less-effective system because once goods enter commerce, it is often much harder to track them down than it is when they come in bulk through one spot; through one, two, or three ports.

The world of gray market goods is much more complicated, even in the United States. Certain types of gray market goods or parallel imports can be and are prohibited, others are not. In the trademark world, it depends on whether the person doing the gray market sales is related in some way to the rightful owner or not. It is always one of our negotiating objectives with other countries to persuade them to control parallel imports to the same extent that they would control or prohibit, if you will, counterfeit or piratical imports. First of all, it is a much more complicated undertaking, and second of all, even our own law is complex with respect to this topic.

But on the question of counterfeit goods, it is much clearer. In the United States, customs can and will seize imports that it believes to be counterfeit goods. If they are not, then they will be released. There are even procedures for compensating the importer if the guy who owns the trademark makes an assertion and has the goods seized or delayed until it is later confirmed that the goods are, in fact, legitimate. There is a compensation provision there. TRIPS and NAFTA provide for that possibility of compensation if someone makes a wrongful allegation.

ANSWER, MR. HERTZ: Yes. The question of the manner in which it is possible for the rightsholder to deal with pirated copyright and counterfeit trademark goods within Canada was one of the subjects that was dealt with in the NAFTA Implementation Act. In relation to that, we amended Canadian legislation, which improved the spirit of our court-based system. Revenue Canada Customs did not subscribe to the philosophy that customs authorities, on their own, *sua sponte*, should exclude counterfeit trademark and pirated copyright goods.

The principle of the Canadian legislation of the policy is that Revenue Canada Customs will act on the basis of a court order and excludes counterfeit trademark goods and pirated copyright goods.

As a matter of practice, Canada has not received complaints about the efficiency of our system. And the international disciplines that have been built into the TRIPS agreement and into NAFTA offer jurisdictions the choice between having effective measures to deal with counterfeit trademark goods and pirated copyright goods by either the court-based system or the system in which the customs authorities act on their own initiative.

This subject, post-TRIPS, continues to be discussed in the world customs context. Canada, as far as I know, has maintained that, for

reasons of efficiency and cost, we prefer our court-based system.

Let me turn now to the second question about gray market goods. That is the right of the intellectual property owner to segment the market and exclude from importation legitimate goods that he might have placed on the market in another jurisdiction.

In December of 1991, in the Georgetown meeting of the trilateral NAFTA negotiating group, the three countries came together and for the first time put down their texts of the draft treaty that they wanted to see, the draft of Chapter 17. Mexico put forward a chapter that included the principle that inasmuch as NAFTA was going to be a free trade area, that intellectual property rights should not be a barrier to trade. Mexico did not want to see the rightsholder having the ability to segment the market and interfere with international trade. Mexico fought for that principle throughout the negotiations.

The United States, on the other hand, put down a chapter in which, pretty much across the board, rightsholders in the various areas of intellectual property would be required to be given a right to segment the market.

Canada put down a recommended intellectual property chapter that merely consisted of one or two sentences that requested the parties to NAFTA to agree to implement the TRIPS agreement.

What does the TRIPS agreement say about the obligation of WTO parties to provide the rightsholder with the right to segment the market and exclude goods which he might have put on the foreign market?

Article VI of the TRIPS agreement, entitled "Exhaustion," says that, "[f]or the purpose of dispute settlement under this Agreement, subject to the provisions of Articles III and IV above, nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." So I would maintain that there is no international consensus with regard to the obligation across the board to provide IP owners with the right to market segmentation. The essence of the Canadian position is that Canada wants to remain free to judge sector by sector, and even within sectors under specific circumstances, sometimes in light of consumer interest or other factors, whether or not a copyright owner or a trademark owner or other intellectual property owners should be able to exclude the product which they have put on foreign markets.

It is very interesting that this is a feature that, if I am not mistaken, was discussed in the recent WIPO treaties with respect to copyright and sound recordings. In the agreement that was recently reached at the World Intellectual Property Organization it was not possible to follow the desires of the European Community and the United States and some other countries to require exclusive importation rights for record produc-

ers, performers, and copyright owners. This question is left very much for the determination of each national jurisdiction.

QUESTION, MR. HERMAN: When you were discussing the Canada/U.S. issues, I did not hear you mention cultural industries. Am I correct, then, in concluding that the issues that you see on the horizon in the area of intellectual property, including cultural industries between Canada and the United States concern two fairly technical issues; one, the blank tape levy issue, and two, the performance rights royalty-sharing issues? Those are the only two issues you mentioned as trade issues looming on the horizon. Am I right in that regard? If I am, it means that any issue concerning the cultural exemption does not appear to be on the Canada/U.S. agenda as far as you are concerned. That is the first question.

Secondly, I followed what you said about the interplay among Article 2106, Annex 2106, and Article 2005. I must say, I am not sure I caught it all. I had always assumed that the cultural industries exemption issue under the NAFTA was really one of automatic retaliation and no more. Let me explain it another way.

Under the FTA, Canada was allowed to take inconsistent measures and the United States was allowed to retaliate automatically. In other words, they did not have to go through the dispute settlement process.

I thought that a fair reading of the NAFTA provision said that, to the extent that the FTA allowed Canada to take an inconsistent measure, and in that regard there are no IP provisions in the FTA, the United States could automatically retaliate.

The NAFTA provisions, as I understood them, meant that Canada could still do that to the extent the FTA provided cover. To the extent the FTA provided cover, the United States could automatically retaliate without having to go through any dispute resolution provisions. Canada, under the NAFTA, can still do that, but without FTA cover. The United States then has to go through some dispute settlement process. They cannot automatically retaliate. You seem to say that there is something broader than that, and I would like your comments.

Finally, the point I would drive home is that, since the subject is whether the NAFTA provisions are working in this area, I agree with Dr. Hertz, that certainly in the pharmaceutical patent area, it is working because there has been tremendous pressure on the government in a current review of the Canadian Patent Act to provide considerable exceptions for generic drug manufacturers. The Canadian government has said, quite rightly, and publicly, that it cannot do anything in this regard because it is committed to its obligations to the United States under the NAFTA and to the countries of the rest of the world under the WTO

agreement. To that extent, it really is working.

ANSWER, MR. PAPOVICH: With respect to cultural issues in the IP context, the answer from me is as follows: number one, we have very limited resources in our office, so we have to identify what we consider to be the major challenges for U.S. intellectual property rightholders worldwide, and that the major challenges for us are not with respect to cultural issues trade between the United States and Canada. There were problems with Mexico, other Latin American countries, Asian countries, and European countries. Many of the cultural issues are simply handled outside of the intellectual property domain. So, for example, we did not consider the *Sports Illustrated* dispute in the WTO an IPR issue. It certainly borders it, but it was not in my radar scope, someone else had it in their radar scope.

The Broadcasting Act, or the Canadian Copyright Act that I referred to are two of the major issues between the United States and Canada in the cultural area. There are some others that are always percolating below the surface and could rise above the surface; for example, an American used book company has been selling used textbooks in Canada for some time, and there has been a measure of wanting to deny them access to the Canadian used book market for cultural reasons. That floats below the surface. It has not risen above it, but it could rise above it at any time.

There could be another action taken under the Broadcasting Act, and any Country Music Television-type action. Again, that is not strictly intellectual property, but these things could always pop up. It is just case-by-case, and there are not too many of them, but it is case-by-case.

COMMENT, MR. HERMAN: These issues will always be on the agenda between Canada and the United States. There will always be problems of this nature. But the important point you are making is that, contrary to what some Canadians seem to think, there is not a wholesale assault on the Canadian culture. You are saying there are really a couple of narrow issues that perhaps have to be adjudicated.

COMMENT, MR. PAPOVICH: That probably has something to do with respect to perspective. I always used to smile when I went to the Foreign Affairs Ministry in Canada, a room where we had meetings had a picture on the wall of a huge elephant, sitting from behind. Sitting next to him was this little boy on a chair and it was placed there by the Canadian government to give us the sense of perspective, I guess. No one stamped "U.S.A." on the elephant's butt, but it was pretty obvious. That may have a lot to do with the prospectus that you just identified.

Now, I just wanted to address the last comment you made about the pharmaceutical protection, and the reconsideration of the so-called link-

age policy. I am encouraged when I hear the Canadian government say that it has NAFTA obligations and WTO obligations with respect to continuing to protect or provide patent protection for pharmaceutical products, and I hope that holds. The existence of the current policy is a good thing, as far as the United States government is concerned. We applaud those in the Canadian government who are opposing any weakening of it.

ANSWER, MR. HERTZ: Joe mentioned that the magazines case was not on his radar screen, let me explain why. I have here a copy of the interim report of the panel from January 16th. In the interim report, part of the scenario for the magazines case was, and it was only a small part, but at least for *Sports Illustrated* it was quite important, it was the scenario of editorial content being beamed up by satellite from editorial offices in the United States and beamed down to a printing plant in Toronto. *Sports Illustrated* was being printed in Toronto. There were other aspects to the case that were more important, and, in fact, from an IP point of view, touching films, sound recordings, and publications, the issue is, when you have this intangible movement and there is nothing crossing the border, is the matter at issue in Canada actually in international trade?

What I find fascinating in the panel decision is the statement, at least in the interim report on page 23, paragraph 3.55 that says, "[t]his case is not based on Canada's treatment of U.S. publishers' split-run magazines produced in Canada. Such magazines are not imported products within the scope of GATT Article III."

Speaking personally, not on behalf of the Canadian government, if the magazines case had embraced things that happened in Canada to magazines and by extension films and sound recordings where they have not crossed the border, it would have tremendous impact on intellectual property on all intangibles. But it seems that the decision of the question at hand is one that relates to goods and international trade, so that is just a footnote.

With regard to Mr. Herman's question about the FTA and NAFTA, I think that having provided a lot of detail in writing and having dealt with the chart on the wall, I will try to now phrase the situation in terms of the policy of the cultural industries exception as it was understood inside the trilateral working group during the negotiation and obviously beyond it.

QUESTION, MR. HERMAN: But I am asking what the word means.

COMMENT, MR. HERTZ: Oh.

COMMENT, MR. HERMAN: The policy.

ANSWER, MR. HERTZ: I believe that the words embody the policy, and I think when one understands the policy, which I am sure you do, you will see that the words are consistent.

The idea was that, in NAFTA, Canada was not prepared to go beyond whatever we had agreed in the FTA in the area of cultural industries. That is, for the obligations that Canada would undertake and for the type of trigger that would be at stake with regard to inconsistency, because those two things are the same.

That did not mean that Canada was not willing. We knew that there would probably be a Uruguay Round. We knew for IP we were going to take on most of the obligations because there is no cultural industries exception in the WTO.

And in the future there will be other negotiations, like the Multilateral Agreement on Investment, where issues area by area are going to come up for evaluation by Canada in light of what is on the table there. But the fact was that, in NAFTA, we identified with the United States in Article 2107 certain industries. For those industries, we were freezing things at an FTA level and we were willing to be hit with a suspension of Canada's NAFTA trade concessions of the United States in the event that we introduce the measure that was inconsistent with an FTA discipline. If not, we expect to keep our NAFTA trade concessions and we expect the United States to live up to the agreement that we made.

COMMENT, MR. HERMAN: So your answer is affirmative; in other words, if Canada takes a NAFTA inconsistent measure in the area of cultural industry

COMMENT, MR. HERTZ: FTA inconsistent.

COMMENT, MR. HERMAN: No, NAFTA inconsistent.

COMMENT, MR. HERTZ: NAFTA inconsistent in the sense of 2106 inconsistent?

COMMENT, MR. HERMAN: In the sense of Chapter 17 inconsistent.

COMMENT, MR. HERTZ: No, NAFTA is explicit. NAFTA says that any measure adopted or maintained with respect to the cultural industries shall be governed under NAFTA exclusively in accordance with the provisions of the Canada/United States Free Trade Agreement. That is very clear in the text. The only NAFTA rules for the cultural industries are to be found in 2106, and 2106 says that, for a cultural industries measure to be evaluated under NAFTA, you look exclusively to the FTA and similarly for retaliation. If you want to know the rules, you look to the FTA.

COMMENT, MR. HERMAN: But that works in Canada's large disfavor because it allows automatic retaliation having to be enforced in

the dispute settlement. I do not understand why the government of Canada would take that interpretation.

COMMENT, MR. HERTZ: It goes to one of the fundamental questions of international law, namely the jurisdiction of a tribunal. Very often, there has been the problem of denunciation of treaty and the interpretation of denunciation clauses in treaties, and clauses to oust the jurisdiction of tribunals.

There can arise the preliminary question of whether or not the events have arisen which entitle one of the parties to denounce the treaty or to terminate the treaty. Those questions of interpretation are to be decided by the tribunal.

If indeed there is some argument as to whether a particular act of retaliation by the United States, for example, would be one that is within 2106, it would be because it is a suspension of NAFTA concessions following a Canadian measure that is inconsistent with an FTA obligation. If that would be the case, the panel would say that we do not have jurisdiction because we see that, in fact, Canada has brought forward a measure which is inconsistent with an FTA discipline. If, however, there is a finding that the measure that Canada has put forward is not inconsistent with the FTA, then the panel would have to say that our NAFTA trade concessions are still binding in the United States.